

USAID SERBIA ENTERPRISE DEVELOPMENT PROJECT
Annual Project Summary and Report – July 2003 through June 2004

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Re: Annual Project Summary and Report – July 2003 through June 2004

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I. Introduction

Political turbulence in 2003 undermined the foundations of the original SEDP engagement plan. The government collapsed, bringing down with it the government-dominated National Competitiveness Council (NCC), which had at that time failed to adopt even a basic National Competitiveness Strategy (NCS). Ongoing political instability, combined with a lack of real public or private sector support for the NCC, thwarted attempts to reestablish the Council in the same or similar form.

In 2003, the Government of Serbia (GOS) also sidelined its own investment and export promotion arm. Failure to pass legislation and budgets necessary to support the Serbia Investment and Export Development Agency (SIEPA) left another primary counterpart stalled and incapable of taking full advantage of SEDP support. This has left SEDP in the position of seeking other means to fulfill the main goals set out in the original engagement plan:

- Increase the competitiveness of six sectors, as measured by increased sales and employment;
- Increase investment, especially foreign direct investment (FDI);
- Drive policy reforms to improve the business environment; and,
- Improve the international perception of Serbia and the Serbian business environment.

The project strategy laid out in this document takes account of the likelihood of continued political instability and/or lack of GOS prioritization of the previous goals agreed upon with SEDP. Following project redesign to take account of the changed environment, the focus of SEDP through the second two project years will be on initiatives driven by the private sector. The government will be engaged mainly to drive changes in policies that affect the private sector. Should the political situation change, SEDP will maintain the option to immediately reengage in the partnership fashion originally envisioned, either through a reconstituted NCC or through another structure or arrangement that provides a high expectation of sustainability. However, the strategy going forward seeks to make project results as independent of political issues as possible.

Described in more detail herein, the three pillars going forward are:

1. Using a cluster-based conceptual framework, contributing project resources to six sectors through a combination of activities that will drive both short-term results and long-term change in the sectors (75 percent of effort);
2. Assisting the main business organizations in Serbia in developing research, analysis, and advocacy capacity, with the goal of realizing the benefits of collective action to fulfill the basic functions left behind with the collapse of the NCC (15 percent of effort); and,
3. Assisting SIEPA, as now the sole counterpart in this area, to improve communications and perceptions about the Serbian business and investment environment (10 percent of effort).

The following narratives describe progress against benchmarks and strategies for going forward in each of the main areas of engagement.

As accomplishments have already been summarized in monthly reports, this report will focus on lessons learned and strategies for the future.

II. Policy and Institutional Development

Progress Against Prior Year Work Plan

A combination of public sector dominance (but not guidance) of the NCC, a lack of progress on the basic goals and means of fulfillment by all parties, unclear incentives for participation, and ultimately the fall of the government all contributed to the failure of the fledgling institution. The government fell before the NCS was passed, before a joint NCC/USAID investment committee was established to guide commitment of SEDP resources, and before the NCC was able to consolidate around its goals. The collapse of the government and new elections were identified as primary risks in the SEDP Engagement Plan, but destabilization to this degree was not anticipated and likely could not have been adequately hedged against anyway.

Later attempts to re-start the NCC to take account of some of these problems did not gain support due to additional incentive and sustainability issues. Though one recent proposal suggested that the NCC be a purely private sector body, or at least one with ties primarily to the private sector, basic incentive and participation problems could still not be worked out *ex ante* to a sufficient extent to justify the costs of establishment. Fortunately, only minimal project resources were expended during the whole period since the initial establishment of the NCC.

SEDP has taken a step back on the formation of an NCC under the current circumstances and has instead begun to look at how the basic functions outlined for the NCC could be re-created in appropriate forms that would stand a strong chance of sustainability. These two functions are:

- Effective dialogue between the government and the private sector leading to an improved business environment and increased competitiveness (as opposed to lobbying for re-distributive advantage); and,
- Effective promotion of Serbian business and investment opportunities, leading to an improved international perception of Serbian companies and the Serbian business environment.

Strategies for the Future

In May and June 2004, SEDP and USAID took stock of the participants in the business community, questioned them about their needs and ideas, and took careful note of their incentives and available resources to participate in any follow-on to the NCC. The core of this activity was a series of meeting with the heads of the main business organizations in Serbia:

- American Chamber of Commerce;
- Privrednik, a coalition of top Serbian industrialists;
- Foreign Investors Council, which has been very active in advocacy work including the publication of a "White Book" outlining priorities for the GOS;
- Union of Cooperatives, representing many small producers, largely in agriculture;
- Union of Employers, a previously State organization of SMEs with mandatory membership, but which now has reorganized itself into the largest voluntary business organization in Serbia;
- Association of Shareholder Companies, a group of formerly public companies; and
- Members of the regulatory task forces formed with SEDP assistance in the six sectors.

From these meetings emerged a consensus that there were benefits to coordinating and often combining their advocacy efforts. This includes combining resources, bringing their collective influence to bear on policy positions, and maintaining consistent positions. SEDP and USAID determined that such an activity, if successful, would to a large extent replace one of the functions of the NCC as stated above. Not having the GOS directly involved presents both a disadvantage and a related advantage: without GOS representatives in the group, it is possible that access to the

government will not be as clear or effective as expected under the NCC structure, but not having GOS representatives in the group also keeps the agenda from being captured by government or having the debate and demands diluted for cooperation's sake.

As a culmination of these efforts, on July 1, SEDP held what was billed as the first in a series of joint "Working Groups on Competitiveness." Four main business organizations attended (Union of Employers, American Chamber of Commerce, Foreign Investors Council, Association of Shareholder Companies) and agreed to develop joint positions, starting with the Labor Law. Besides coordinating activities, SEDP will assist the efforts of the groups in three main areas: providing internal policy analysis and development through its own staff, providing grants to outside research organizations to conduct research that can sway policy, and providing financial and technical assistance to organizations to improve and carry out their public information efforts. To a large extent, this assistance mirrors the project support that was to go to the NCC under the original work plan.

On July 14, a joint statement was sent to the Prime Minister, the Deputy Prime Minister, the President, and the Minister of Labor, signed by the heads of these groups notifying them that they would be reviewing the Labor Law and would appreciate cooperation.

SEDP sees this effort as the initial groundwork for building up a set of functions, and potentially an organization, from the basic needs of the business community. Following work on the Labor Law, SEDP plans to continue to work with these organizations on other key pieces of legislation, such as construction regulations and taxes. As time passes and success is seen, decisions within the group will have to be made about creating and supporting any kind of permanent umbrella structure like the NCC.

The approach ensures that all activities are fully supported by the incentives of the particular member organizations, and minimizes the risk that any new structure will be alien or will put form before function. The approach also avoids large up-front expenditures on organizational forms before knowing whether the particular functions are valued highly enough by the constituent groups to provide longer run sustainability. Though this initiative is to the extent possible member driven, it is certain that it would not have been initiated and/or driven forward without SEDP support.

Additional support on advocacy and improving private sector access to government decision-making is provided through SEDP's direct work with economic sectors or clusters of firms. This is discussed under the next main heading.

Expected Impact

The activity is expected to contribute to making real competitiveness-enhancing changes in the policy environment that would not have otherwise happened. Such changes are expected to lead to increased investment, revenues, and employment.

SEDP activities will lead to improved skills in analysis, and in communicating with both the government and the public, within business sectors and NGOs. Over the course of the project, these skills will complement the establishment of permanent, effective, and habitual dialogue between business and government, both formal and informal.

III. Sector (Cluster) Activities

Progress Against Prior Year Work Plan

In the sector level activities, SEDP has exceeded its goals of forming cluster groups, having six active by July 2004. The original plan was to phase out activities related to the fruit and furniture clusters by this time. However, further analysis indicated that it is unrealistic to have a significant and sustainable impact across a given sector in this short period of time. So long as results are forthcoming, SEDP plans to continue to work with these sectors through the life of the project. The strategy outlined below calls for multiple coordinated and complementary activities which will drive sector change while working with a broad group of cluster members, not exclusively a core set of companies.

In accordance with the SEDP engagement plan, sound business cases have been developed for six sectors. The six sectors are fruit and fruit juice, apparel, furniture and wood products, pharmaceutical research, information and communications technologies, and tourism. SEDP believes that each engaged sector has the basic components required for them to lead change and growth in the Serbian economy, with the assistance of well-conceived and targeted interventions.

The bulk of project resources have now been focused into activities that directly support sector strategies. This includes, for example, a refocus of the self-contained FDI component into a broader Finance and Investment resource that focused on supporting companies within SEDP's core sectors.

Strategies for the Future

The goals of the project are to achieve lasting change in each of the sectors, leading to increased competitiveness, manifested ultimately in a sustainable increase in sales and employment. Lessons learned over the last year lead to a more comprehensive and integrated approach to change. This approach has several components:

Cast a wide net, but drive follow-through in select areas with maximum impact. The cluster approach lends itself to analysis of problems from multiple perspectives and angles, with the ultimate goal of identifying gaps between current and ideally competitive characteristics in sectors. The perspective allows for the identification of a multiplicity of potential areas of focus. These can be prioritized and analyzed from a cost/benefit perspective to select those with maximum potential impact for intensive implementation and follow-through. Successes from this and other projects prove that flexibility and opportunism is key. In order to maximize results, SEDP will work on two levels: working with existing products to move them as rapidly as possible into promising new markets, and helping companies in the sectors innovate to capture entirely new markets with new higher-value-added products. This focus is reflected in the strategies for each sector.

Leverage short-term interventions into the long term to the extent possible. Once a gap is identified, a one-time fix may produce results. However, this need will usually still exist in the future and with other members in the sector. All advisors brought in will seek to institutionalize the activity and knowledge in an appropriate location and create a long-term opportunity for updating. It is not sufficient to rely only on "imitation effect" to obtain broader-based and sustainable results; the tools must be made permanently available. Though this extra level of effort (LOE) will not have immediate measurable impact, it will be a critical component of long-term change. To this end, SEDP will use some of the funds originally allocated for support to the NCC to support curriculum development, as well as take advantage of the resources available through other resources such as SEED and the European Union (EU) vocational and technical education program.

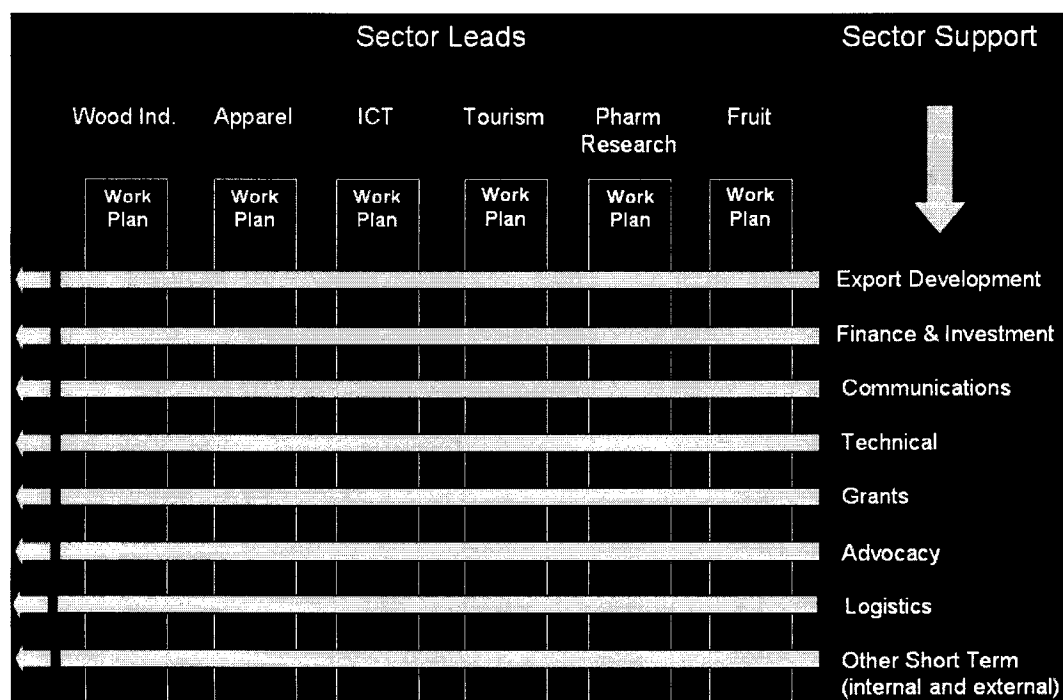
Define clusters inclusively. The project has taken a recent strategic shift to expand membership within the core cluster groups in order to broaden impact across a wider range of firms. Efforts are being made to more actively engage government, faculties, institutes, and indirect private sector players in cluster work. This is anticipated to improve results in the short term, while laying more solid foundations for longer-term and more sustainable changes in sector dynamics. For example, sector tasks are taking educational and regulatory factors into greater consideration, as these are inseparable from the environment within which sector companies operate. Such an approach also makes fuller use of sector capacity to elicit change. For example, whereas a university may hesitate to adjust its curriculum on the advice of a short-term advisor, the chance of this change occurring is much higher if industry and government players are united and pushing for it. Initiatives can much better take a “life of their own” in such cases.

Focus on results at all levels. The goal of the approach outlined above is to effectively and efficiently identify and prioritize competitiveness-related problems, design solutions, and ensure that those solutions become long-term. While there is much to be said for building long-term change in a sector, the needs of the Serbian economy are pressing. The project will focus increasingly on driving results through to conclusion, with increased follow-up efforts directed at market development activities. These tangible results are necessary both to stimulate real growth and employment and to provide the ongoing incentives for cluster sustainability.

SEDP is currently working with six sectors, but reserves the right, in consultation with USAID, to expand and/or substitute if work in a particular sector is not yielding sufficient results.

Organizational Overview

The chart below shows the basic organization of SEDP resources. Sector leaders design strategies with cluster members, SEDP management, and technical personnel. Each sector leader then implements these strategies and associated tasks by coordinating assistance from both permanent SEDP resources and short-term technical assistance.



The permanent resources are:

Communications The communications team works with sector companies to improve their ability to generate and maintain relations with their clients and the public, and to understand their markets better so that they can innovate to deliver higher-value products to those markets. The team seeks to help companies understand, develop, and implement strategies to improve their presentation profile in news media and trade publications. The team works with companies to improve packaging, marketing, corporate image, sales material, and websites. SEDP will also provide training for sales personnel. The assistance from the communications team should result in increased revenues, employment, market penetration, and value captured by the assisted firms.

Export Development Exports are the final manifestation of each company's ability to compete in global markets. SEDP has a full-time export development manager to develop market contacts for the companies with which SEDP works. This assistance in developing market links is provided both to individual companies and, more importantly, to industries as a whole. These latter activities include managing joint presentations at trade shows, distributing information on contacts, and providing assistance on reaching, penetrating, and servicing markets to companies as a group.

Grants SEDP manages a \$500,000 facility providing maximum 50 percent matching grants to assist companies in meeting competitiveness-related goals. Grants in the first year have gone to a variety of purposes including: participation in trade shows and marketing trips, usually with other SEDP support; ISO, HACCP, organic, and other certifications; promotional materials development, especially for trade shows and marketing trips; website development; and, development of a software package to assist in ISO implementation. SEDP also maintains another approximately \$200,000 facility that it requests be earmarked by USAID largely for grants to institutions to support advocacy, educational and institution building goals. SEDP intends to use these funds to implement longer-term solutions to training needs in the relevant educational institutions for the sectors.

Finance and Investment Understanding of, and access to, a variety of financing instruments is critical for progress in upgrading equipment, financing trade, and increasing capacities. The finance team will survey both the supply and demand sides of Serbian firm's financial needs, in order to provide information to sector firms on various financing tools. The survey will include all potential forms of investment, including bank loans, leasing, local equity markets, international and regional private equity investors, strategic investors, diaspora investors, trade finance from various sources, and internal inventory and process methodologies. The matching will be in the form of seminars and dissemination of resource documentation, as well as through one-on-one facilitation to the extent that time and resources permit.

The original SEDP engagement plan envisioned a broader foreign direct investment (FDI) component, involving not only the role noted above but promoting FDI on a deal by deal basis and working to promote FDI in general through SIEPA. Due to long lead times on deals, political instability and the continued lack of an adequate budget for SIEPA, these latter roles have been minimized for the time being. Furthermore, the private sector is emerging to meet some of these needs for investment support. Given that the project now has less than two years left and that the EU has a program to promote FDI in SIEPA, it is unlikely that these areas will be taken up again with the same level of effort as previously.

Legal and Regulatory Each of the six sectors has a regulatory task force that SEDP is working with to assist companies in identifying problems in the regulatory environment, understanding how these relate to particular laws, articulating positions to obtain changes in the laws, and conducting effective advocacy. This is a recent addition to the strategy, which takes over from the legal work that was to be done with the NCC. Some early successes include: a delay in the submission of the Tourism Law, in order to clarify several issues and bring to EU standards; successful lobbying of the GOS to request

that barriers against the export of game meat to the EU be removed; and inclusion of provisions in the new Law on Medicines to clarify and streamline procedures for approval of clinical trials. Short-term impact will be an improved regulatory environment. Long-term impact will be the same, driven by companies' higher expectations from government and the permanent institutionalization of improved access to government.

Other Technical Assistance Additional assistance is to be provided by permanent staff as skills permit. For example, one current staff member has a background in industrial control and may be able to assist certain companies in assessing upgrade opportunities.

Where internal SEDP resources are not available, the project will continue to draw in specialized expertise for targeted work that fulfills overall program goals. This targeted assistance is designed to balance maximizing impact with building foundations for long-term improvements in the sectors. As of July 2004, there are a total of 10 scopes of work out for short-term assistance:

- | | |
|--------------|---|
| ICT | * market development and strategic planning
* Capability Maturity Model (project management) training and curriculum development |
| Tourism | * branding and roll out strategy
* product development and packaging to meet customer expectations |
| Wood | * follow-on strategic and market assessment
* development of sales to hotels and other large-scale institutional purchasers |
| Apparel | * tariff optimization and consultancy training |
| Pharma | * Good Clinical Practices (GCP) training and curriculum development |
| Cross Sector | * negotiations training
* sales force development program, which is anticipated to be coordinated with the EU vocational training program for ongoing impact |

Sector Strategy Briefs

The following briefs outline the basic goals and some of the planned activities that SEDP is currently working on in the sectors. The activities are not comprehensive and most of the clusters have multiple task forces that are working on different areas, sometimes largely independent of SEDP. Finally, several of the sectors are still engaged in developing the best strategy for moving forward.

Fruit and Fruit Juice

Overview

Serbia is one of the world's largest producers of certain types of fruits, especially plums, raspberries, sour cherries, and strawberries. The standard practice has been to harvest, freeze and then sell the product in bulk to outside markets through traders. SEDP is working with a number of private Serbian companies to add additional value to the products prior to export, as well as to access additional and higher-value markets.

- Goal 1: develop and market more higher-value-added products
- Goal 2: improve market access
- Goal 3: improve logistics and environment

Participants include many, if not most, of the largest processors in Serbia, in juices, jams, and fresh, frozen and dried fruit. The Agricultural Institute in Cacak, an organic certification organization, and the Ministry of Agriculture, Forestry, and Water Management are also involved in various activities.

Summary Strategy

Develop and market higher-value-added products

SEDP has been working with cluster members on developing unique niche products for Western markets, including 100 percent not-from-concentrate juices, organic products, and juices from products such as raspberries that had previously not been manufactured. Work has been largely in market segment analysis, packaging for export, and marketing and communications. SEDP is assisting in a lobbying effort for the adoption of the Universal Protection of Varieties, to allow the use of varieties in Serbia that would increase high-value fresh market sales.

Penetrate higher-value markets

SEDP is helping Serbian producers diversify away from the distribution channels used during the sanctions in order to capture more value from their products. In doing so, in addition to opening up these channels, SEDP is supporting HACCP, organic, and other needed certifications.

Apparel

Overview

The apparel sector in Serbia has several market segments. At the most basic level are the Cut, Make, and Trim (CMT) operations, which simply apply low cost labor to a package of imported materials and re-export finished garments. At the top are own-label and some couture companies, either with their own retail outlets or selling their brands in other stores. Often the same manufacturer may diversify into several segments. With the reopening of Serbia leading to increased imports from well-marketed foreign brands, as well as increases in average Serbian wages, all areas of the apparel industry are under stress. At the same time, a number of the own-label companies do have products that initial assessments indicate are world class in terms of style and quality.

- Goal 1: improve access to diversified, competitive markets
- Goal 2: improve capacity to compete in own markets against aggressive competitors
- Goal 3: assess additional activities in the sector

Participants include many of the largest fashion clothing designers, manufacturers, and retailers in Serbia. Participation is anticipated to broaden.

Summary Strategy

Penetrate higher-value markets

SEDP is assisting six of the larger own-label and one couture company in accessing the U.S. market. The strategy is a combined one of showing at selected trade shows and obtaining

contracts with reputable agents to distribute to clothing boutiques across the U.S. Once these channels are open and Serbian companies develop a good reputation, additional companies may follow. The companies will also jointly market their product through a website.

Identify and implement additional activities to improve competitiveness

SEDP is in the midst of surveying the sector companies to determine other means of assisting companies both in penetrating new markets and in maintaining their current ones against well-funded and aggressive international brands. Some areas of support may include: improvement of retail networks; marketing and image support; improving the regulatory environment (a task force on this subject was spontaneously formed by the participating apparel companies); pattern and cutting training; and, design improvements, including a design network for ongoing development of Serbian design.

Wood Products and Furniture

Overview

The wood products sector in Serbia is highly fragmented, with thousands of small producers and several dozen larger ones. Serbia has the basic forest resources to support the sector and a long tradition of woodwork. During sanctions, as in the apparel sector, many furniture companies developed competitive designs and, less often, quality products to substitute for what could no longer be imported. Companies produce a wide range of products across the price and quality spectrum.

Goal 1: improve access to diversified, competitive markets

Goal 2: improve capacity to compete in own markets against aggressive competitors

Goal 3: assess additional activities in the sector

Participants include many of the largest furniture manufacturers and exporters, as well as the Forestry Faculty.

Summary Strategy

Penetrate export markets

Initial assessments and results from trade shows indicate that a range of products can be competitive on world markets. SEDP efforts are focused on working with companies to develop trade leads and drive those through to sales. After conducting one workshop on wood finishing, in response to observed needs in that area, SEDP has no further process assistance planned. In support of the exporters, SEDP plans to provide assistance to the Forestry Faculty for developing and disseminating EU-compatible industry standards.

Identify and develop new activities to support goals

SEDP has been working with a core set of companies on traditional furnishing markets. As part of the strategy to increase activities, SEDP will conduct additional assessments to locate products with particular markets (wooden windows and doors, hotel and institutional furnishings, partially worked elements, etc.) and assist in developing those.

Tourism

Overview

Serbia has not traditionally been a strong market for either international or domestic tourism. Exceptions include transit passengers and some hunting and other specialty areas. Though lacking major sites and activities, Serbia is suitable for further development of certain kinds of niche tourism and as a short-term destination from major cities in Europe. Building a positive image of Serbia as a tourist destination will also assist in removing Serbia's negative images following the wars and sanctions of the 1990s.

Goal 1: improve Serbia's image among international tourists

Goal 2: develop and market products for niche and weekend tourism

Participants include the National Tourism Organization of Serbia, the Tourism Organization of Belgrade, the two largest associations of tour operators and travel agents, many small independent operators, and the Ministry of Trade, Tourism, and Services.

Summary Strategy

Improve Serbia's image

SEDP is working with cluster companies and the National Tourism Organization of Serbia, as well as other organizations, on a national branding strategy for Serbia. This will include images, symbols, and a roll-out plan. A SEDP consultant will be arriving at the beginning of August.

Develop tourism products

Following the application of 85 tourism operators for a contest to identify and develop a trip around "Three Perfect Days in Serbia," SEDP will work with the contestants to develop marketable two- and three-day trips for weekend tourists from cities in the region. The focus will be on service, logistics, guest expectations, and interest. A SEDP tourism product development advisor will also help develop adventure, eco, rural, hunting, and other specialty tourism offers for both domestic and foreign guests.

Information and Communications Technology (ICT)

Overview

The ICT sector in Serbia is divided into three segments: large international companies mostly conducting sales and support; domestic companies conducting sales of commodity products, with some support; and, domestic companies producing software, either their own packages or outsourcing on larger projects. Some companies do combine these segments. SEDP is focused on working with the last group in both identifying new markets and helping develop the basic project management and customer service skills necessary for servicing leading international customers. There are considerable unemployed and under-employed resources in the ICT sector, implying a potentially significant employment effect. Due to the importance of the sector across all areas, progress in ICT should both lead to increased service exports and import substitution and also help strengthen the economy as a whole.

Goal 1: develop new service export markets and higher-value packaged products

Goal 2: provide training in and permanent institutionalization of project management skills

Goal 3: improve environment for ICT companies in Serbia

Participants include many of the large Western software companies, technical institutes, faculties, and numerous Serbian software companies in outsourcing, animation, and program development.

Summary Strategy

Develop new markets

There is considerable skill in the sector in Serbia, but often it is unclear to companies how to access markets and how best to tailor their products to them. SEDP is bringing advisors familiar with a number of niches in the ICT sector in to meet with groups of companies in particular areas to strategize and develop plans for new market penetration. A goal is to move away from the outsourcing of software coding toward final packaged software servicing niche markets.

Improve the educational and regulatory environment

SEDP is assisting those companies conducting outsourced work in obtaining the training and certifications necessary to tap into larger projects, as well as ensuring that training is available into the future. As in many sectors, the regulatory environment in Serbia for ICT is poor, with high-cost communications, poor protection of property rights, and inadequate competition in a number of areas. SEDP is working with the sector to develop a "White Paper" as a basis for changing the regulatory environment.

Pharmaceutical Research

Overview

Serbia has a long tradition of sound expertise in the medical fields. Conducting basic clinical trials on an international quality level is well within current capabilities, with most barriers related to regulation, perception, and organization. SEDP's goals are to solidify a position in clinical trials, and then move up the value chain to areas requiring higher levels of expertise. The immediate areas of interest are pre-clinical (both animal and bench) trials and drug compound manufacture. Other areas are in the process of being identified.

Goal 1: obtain contracts for and conduct high quality clinical trials

Goal 2: obtain contracts for and conduct high quality pharmaceutical and medical research

Goal 3: obtain international recognition of clinical and laboratory work capabilities

Participants include all contract research organizations (CROs) resident in Serbia and some regional, heads of major clinics, heads of major research institutes, medical doctors involved in trials, and GOS representatives.

Summary Strategy

Develop promotional skills and improve expertise for clinical trials

Serbian expertise is clearly available in clinical trials, but promotion has been disorganized. Sector activities will entail ensuring that basic good clinical practices (GCP) training is widespread, posting clear procedures and capabilities on a website, and promoting clinical research capabilities directly to drug companies and international CROs through various means.

Pursuing higher-value-added areas

SEDP is conducting a self-reporting survey as well as planning to bring in an outside advisor to assess where the barriers to and best opportunities for pursuing higher-value work will be.

Expected Impact

Each of the sectors outlined above has the potential to, and is expected to, realize gains in revenues and ultimately employment.

Sustainable jobs and job growth require sound companies that are competitive in stable markets, and so feel comfortable hiring employees to make and sell those products. Measures to create employment that do not take account of this reality will inevitably end up being stop-gap and short-term. SEDP activities center around expanding markets and increasing sales, while improving the long-term ability of companies to service those markets. The activities described above are all oriented toward this goal.

IV. Communications

Progress Against Prior Year Work Plan

According to the prior year work plan, communications relied on the recommendations included in the National Competitiveness Strategy as the message, with the National Competitiveness Council as the messenger. With failure of the NCC to adopt a strategy and with dissolution of the Council, this approach was impossible. In response, SEDP audited the communications of successful competitiveness efforts, including a study tour to the Irish National Competitiveness Council, to identify the most effective means of using communications to promote exports and foreign investment. SEDP updated the communications strategy accordingly. The revised strategy creates sustainable information flows between government and the private sector and between businesses and international markets. Instead of implementing a one-time publicity effort that would end when the SEDP contract concludes, the project has now changed the way businesses and government communicate. The strategy also seeks to improve the international image of Serbia. This is essential to attracting foreign investment and assuring potential importers that Serbia is a stable and secure place to do business.

Results of the revised strategy were very positive. Work with the National Tourism Organization of Serbia generated the most positive and upbeat international news coverage of Serbia in years. Through public relations training and individual company consultations, companies have learned how to monitor consumer trends and how to use low-cost public relations to generate coverage in international news media and international trade publications. This approach lets companies to make better use of money that would otherwise be spent on advertising. It also ensures the long-term and sustainable ability of companies to monitor and respond to markets.

The prior year work plan relied heavily on a theory of “behavioral diffusion,” as described in part by communications theorist Everett Rogers (1976). The work plan was based on the assumption that publicizing successful business practices would result in copying of those practices by other businesses. SEDP efforts were to focus on publicizing successful SEDP assistance. There were three problems with this:

1. There was insufficient evidence, either in SEDP experience or in international practice, of active use of the diffusion model to successfully promote competitiveness. The theory is descriptive, not prescriptive.
2. Because of Serbia’s recent history and an economy that is still transitioning from the Milosevic years, businesses in Serbia are profoundly reluctant to draw attention to efforts that help them make more money. SEDP clients were, understandably, reluctant to be the center of attention in matters concerning their financial success. There were no cases to publicize.
3. Behavioral diffusion is the wrong model for Serbia. When fruit companies in Serbia failed to adopt Hazard Analysis and Critical Control Point (HACCP) international quality standards (which would open huge new export markets), it was not because they did not understand the competitive advantages of HACCP or because they needed an example of success. It was because they could not afford to do so. HACCP represents a significant expense in education, training, and inspection programs. (SEDP responded by providing matching grants for companies to introduce HACCP.) Likewise, SEDP has found that failure to adopt other competitive practices is not because of lack of awareness but because of lack of money, a bad legal and regulatory environment, or other factors.

Refocusing efforts on teaching counterparts how to manage communications, talk to customers, define their products, and build sustainable communications mechanisms has paid off. Companies

have improved packaging for export markets, transitioning from the old command economy industrial look to something that can compete on store shelves in Europe and North America. When the Serbian fruit cluster inaugurated their website, the story was picked up by the largest and most prominent industry publication in the world, which even issued an alert on the subject worldwide to more than 80 countries. By defining a client product as an affordable luxury item and ensuring a strong company philosophy, SEDP helped cluster member Fresh&Co close a deal to supply single serving juices to Starbucks International. ICT companies have learned to project confidence in their industry and to follow up on sales leads for outsourcing. Apparel companies are developing their first online catalogues. Fruit companies now receive weekly updates on international developments. Furniture companies have received essential feedback from international companies on customer relations, product lines, and pricing.

Strategies for the Future

The model for competitiveness communications in transition economies is still being formed. No standard, proven approach exists. SEDP will continue to refine the communications model in Serbia to respond to needs of the private sector and the GOS. SEDP focuses on measurable results and long-term sustainable impact. Specifically, SEDP will:

1. Assist SIEPA and GOS counterparts in cultivating a positive and stable international image through consultation, media activities, and development of publications and web materials;
2. Train Serbian companies in international branding and product promotion;
3. Strengthen industry associations that promote Serbia produced goods, link industries, and help buyers find sellers;
4. Ensure that companies have communications and media strategies to get the most from attending international trade shows;
5. Increase international awareness of the high quality of Serbia-produced goods;
6. Promote public awareness and understanding of the benefits of increased foreign investment and exports;
7. Promote international awareness of Serbia as a travel destination;
8. Help Serbian exporters communicate with potential buyers abroad and to monitor consumer trends and industry trends; and,
9. Train companies in low-cost market research.

Expected Impact

The expected impact of SEDP communications efforts is that companies and government will transition from the old way of managing communications to a new market-driven method. Companies will be able to listen to markets and respond by making better products. Companies will understand how to deal with the media and how to advocate for legal and regulatory change. The GOS will have an open ear to business, responding in a timely matter to urgent concerns. International investors will have improved understanding and confidence in Serbia as an investment destination. Importers will perceive Serbia as a stable and viable business partner. SEDP will have contributed to long-term and sustainable changes in communications. These changes will continue to benefit businesses and consumers for years to come.

V. Performance Risk Factors

There are a number of factors in the external environment that will affect program results. The SEDP staff is aware of these and is developing and maintaining contingency plans. The main identified risks are discussed below.

Lack of Adoption

Firms with which SEDP works may not take anything practical away from activities and may fail to adopt new methods of conducting business. Similarly, firms may not get as much as they can. For example, attendance at trade shows has often been seen by companies as an end-point rather than just one step in a long process of penetrating new markets. A related issue arises when firms do adopt limited changes, but fail to do so institutionally and continue to rely upon SEDP support to realize results.

SEDP actions: design programs that respond to companies' real needs; convince companies of results from activities in straightforward terms; cancel programs with inadequate demand and look elsewhere; and, ensure that work is short-term and conditioned upon companies' own staff taking over.

Non-institutionalization

With almost all of the technical assistance SEDP brings, as part of the scope of work there will be a component to embed that assistance in an appropriate institution so that it can be delivered into the future after the advisors have left. This may be an institute, a faculty, local consulting companies or business service providers, a vocational school, an association, or a government organization, as appropriate. This institutionalization is central to project sustainability and long-term effect. The lack of willingness and/or ability of an institution to take on this role will jeopardize this goal.

SEDP actions: review proposed programs for sufficient demand from the market, and question whether they should be undertaken if such demand is lacking; and, use the broader cluster approach which ensures that end-user needs are heard by the relevant educational institutes (as fellow cluster members), and which also creates a forum for pressure to be applied.

Political Instability

It was an unforeseen collapse in the political situation, and reliance upon political institutions, that undermined the foundations of the last work plan. Relying upon government for program success can delay projects and jeopardize outcomes. On the other hand, government support is critical for improving many areas of the business environment.

SEDP actions: utilize contacts in and cooperation with the GOS, but to the extent possible minimize the degree to which project success relies upon political action.

Non-support of SIEPA by the GOS

With the collapse of the NCC, SIEPA remains the main vehicle for SEDP's activity to improve outside investors' and buyers' images of Serbia. SEDP does remain committed to assisting SIEPA in developing the capacity to constructively engage media, investors, and buyers. However, current budget and staff levels at SIEPA hinder the institution's capacity to absorb and effectively implement new strategies.

SEDP actions: maintain support at realistic levels, and continue to lobby the GOS to pass the necessary legislation and budgets.

Lack of Support for Advocacy Efforts

With the demise of the NCC, responsibility for the rejuvenation of its function of business advocacy lies with the existing business organizations. Though sharing common goals, the organizations are also fraught with combinations of rivalry, lack of internal capacity, and differing agendas in many areas. Though SEDP is taking a very cautious, bottom-up approach and carefully testing incentives along the way, there is a chance that these organizations will not be able to achieve consensus on key issues.

SEDP actions: maintain close relations with the heads of the organizations, and drive results of advocacy as rapidly as possible to maintain momentum.